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Macy's Radical Plan to Save Itself: Shrink

Too much space and too few shoppers yield a plan to reduce the amount of merchandise and the number of employees at slower-performing stores

By Suzanne Kapner

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Macy's Inc., [M -2.06% ▼](#) the iconic department store, has started a radical experiment aimed at revival. It is shrinking.

Faced with too much space and too few shoppers, the 160-year-old retailer plans to reduce the amount of merchandise and the number of employees at its slower-performing stores—walling off entire sections at some locations and leaving the space empty.

“If your store is too big and your dollars per square feet are too low and you can’t lease the space to someone else, then you’ve got to hive off a floor,” Macy’s chief executive Jeff Gennette said in an interview.

The smaller-store footprint, an experiment now under way at four locations, is intended to save money on staffing and inventory, while improving the chain’s sometimes lackluster shopping experience. The company plans to discuss the strategy publicly for the first time Wednesday, when it is expected to report third-quarter results.

“People don’t have to walk through 200,000 square feet to find what they’re looking for,” said Mr. Gennette, 57, who has worked at Macy’s for 35 years. “If we were building stores today, we’d build them smaller.”

The idea of leaving floor space empty is a dramatic turnabout for an industry that historically raced to open more stores and expand its shelf space.

Steve Dennis, a former Sears Holdings Corp. and Neiman Marcus Group executive and now a consultant, said no retailer he could think of has successfully shrunk its way to growth. “If you’ve got too much space, it means your brand isn’t resonating,” he said. “It’s not a real estate problem, it’s a brand problem.”

Americans for decades made a habit of shopping at large department stores, with escalators and holiday window displays. That retail sector has been losing ground since the 1980s—first to discounters like Walmart Inc. and more recently to off-price chains like T.J. Maxx and online sellers like Amazon.com Inc.



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has
left

The service desk at Macy's in Scottsdale, Ariz. PHOTO: PATRICK BREEN FOR THE WALL STREET JOURNAL

traditional retailers with too much space. Some like Sears have closed hundreds of locations or carved out areas for supermarkets and health clubs. Best Buy Co. has revived its fortunes by leasing floor space to tech vendors.

Macy's has already struck leases with Sunglass Hut, LensCrafters and other companies that have moved into its stores, helping defray costs and draw new shoppers.

Sales in the current fiscal year ending in February at Macy's Inc., which also includes the Bloomingdale's and Bluemercury chains, are expected to be roughly flat at \$25 billion compared with 2017, and little changed from 2011.

The Macy's locations being converted into what Mr. Gennette called “neighborhood stores” will shrink in size by as much as a fifth. They will have fewer employees and a leaner selection. The pitch to shoppers: more self-service options—shoe departments display boxes of various sizes—and a convenient place to pick up or return online purchases.

Macy's is testing the smaller format at its store at the Stamford Town Center in

Stamford, Conn. The Macy's there is about 200,000 square feet but yields only about half the annual sales of top locations with a similar size. Since the store is profitable, Macy's doesn't want to close it.

Instead, the store has reduced its square footage by 8%. A now-empty and walled-off section of the first floor once housed plus sizes and coats, which have moved to the third floor.

Colleen Smith, 41, said Monday she liked that coats and plus sizes are now upstairs, near the rest of women's clothing.

But Beverleigh Shaylor, who has shopped at the Stamford Macy's since it opened in 1982, bemoaned the lack of staff as well as the self-serve shoe department. "They don't have enough employees to help clean up the store," the 83-year-old said, pointing to piles of unfolded sweaters.

Ms. Shaylor spent a fruitless hour hunting for shoes before giving up. "Being able to help yourself is great in theory," she said, "but people don't put the shoes back in the right boxes."

The number of employees in Stamford has been cut by nearly 40%. Instead of cashiers in various departments—others in the chain have as many as 50 registers—the Stamford store has three new checkout areas, one on each floor.

On the flip side of Macy's store-shrinking strategy are investments at its most productive locations, so-called magnet stores. Mr. Gennette has basically divided Macy's stores into two buckets.

The magnets, comprised of as many as 350 stores, will get ambitious face-lifts, extra staff, an expanded assortment of merchandise and Starbucks coffee shops. Renovations at 50 of the magnet stores were completed this year and cost more than \$200 million. Another 100 are planned for upgrades next year.

As a sign his strategy is working, Mr. Gennette said sales at the newly renovated magnet stores are running well ahead of the company average.

The makeover at Macy's magnet store in Glendale, Ariz., extends to the beauty department. Virtual mirrors with an embedded camera show shoppers how they would look in different lipsticks, eyeshadows and mascara, all without having to try them on. Storewide, there are new carpets and lighting, along with more employees and a larger dress section.

Many of the 653 Macy's locations are rundown, one consequence of ramped-up

spending on e-commerce in recent years.

“We were spending the capital and gaining market share in digital,” Mr. Gennette said. “But we underinvested in brick-and-mortar. You can’t just do one without the other.”

Yet failure to keep stores in good condition can lead to an erosion of shoppers, which happened to Sears. The company filed for bankruptcy protection in October.

“I wish the store looked nicer,” said Kayla Lindly, 30, a digital marketing executive. She was shopping recently for a dress for a cousin’s wedding at a Macy’s in Scottsdale, Ariz., which is slated for an upgrade next year. “The carpets, lighting and fixtures all look so old.”



Ethan Whittemore and his wife, Nicole Whittemore, with their children last month at Macy's in Glendale, Ariz.
PHOTO: PATRICK BREEN FOR THE WALL STREET JOURNAL

The neighborhood stores, which will make up the rest of the Macy's fleet, will also get updated lights, flooring and fixtures, but not on as grand a scale as the magnet stores.

Since taking over as chief executive in March 2017, Mr. Gennette, has closed dozens of weaker locations, stripped away layers of management and rolled out such new concepts as the Market @ Macy's, a collection of rotating pop-up shops featuring up-and-coming brands.

He also has sought to eliminate overlapping sales promotions so customers don't need a calculator to figure out how much an item costs after discounts.

On a visit to the Macy's in Yonkers, N.Y., one of the renovated magnet stores, Mr. Gennette praised employees for reversing five years of sales declines there. “It really just shows that the investment in this building is paying off,” he said.